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July 19, 1996

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JUL 19 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

VIA HAND DELIVERY

Mr. John Nakahata
Special Assistant
Office of Chairman Hundt
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554

Re: CC Docket No. 95-185 ✓
CC Docket No. 96-98
WRITTEN EX PARTE PRESENTATION

Dear Mr. Nakahata:

Sandy Wilson of Cox Communications, Inc. asked me to provide you with some further information regarding the incremental cost of transporting and terminating a local call on a LEC network. Specifically, she asked that I review cost data from both NYNEX and GTE that corroborate the many other studies in the interconnection proceedings demonstrating that the incremental cost of transporting and terminating an additional minute of local traffic is approximately 0.2 cents per minute. As discussed below, this figure includes both end office and tandem switching in the proportion typically used in making a local call.

In its June 20, 1996 *ex parte* in the CMRS-LEC interconnection proceeding, Cox recalculated the costs of transport and termination as presented by NYNEX in the testimony of Paula L. Brown in Massachusetts DPU Docket 93-125. I have attached copies of the relevant excerpts from Ms. Brown's testimony and a spreadsheet showing how Cox calculated the costs of transport and termination based on the data Ms. Brown provided. Ms. Brown's calculations were based on the entire path of a call, including the facilities required for origination and, consequently, double-counted some cost elements. Cox's calculations include only those elements necessary to terminate a call, and show that the cost per minute for transport and termination, using NYNEX's actual costs, is 0.2272 cents per minute. Notably, these costs are blended to reflect NYNEX's actual patterns of end office and tandem switching. The cost of end office transport and termination, standing alone, would be considerably less than 0.2 cents per minute.

No. of Copies rec'd 013
List A B C D E

Mr. John Nakahata
July 19, 1996
Page 2

More recently, GTE submitted cost data derived from PacTel's Cost Proxy Model which shows a cost for transport and termination of approximately 0.35 cents per minute.^{1/} As Pacific Bell has informed the Commission, Cost Proxy Model figures include a 31 percent mark-up for overhead, and thus are roughly one-third higher than actual incremental cost. When the mark-up is appropriately excluded, the Cost Proxy Model supports a transport and termination rate of 0.24 cents per minute.^{2/} As with the NYNEX number, this figure is a blended cost that includes all calls made by residential subscribers, both those calls that use only end office switching and those that require tandem switching.

The NYNEX and GTE cost figures are but two of a number of other estimates which reveal a blended local transport and termination rate of 0.2 cents per minute. These estimates are described in more detail in Cox's June 20 compilation.^{3/}

The most crucial fact about these cost estimates is that they all are based on empirical data or cost studies. Indeed, the consistency among the various calculations demonstrates that there is a tightly-bounded range of likely real world costs. While several parties in this proceeding have argued for higher charges for transport and termination, none have provided any empirical data or cost studies to justify those rates. Thus, the Commission has no basis for relying on any of the higher estimates of transport and termination costs. The only estimates that can be relied upon uniformly demonstrate that the actual average costs of transport and termination, if calculated as a blended rate for end office and tandem termination, are almost certain to fall within a narrow range around 0.2 cents per minute.

In accordance with the requirements Section 1.1206(a) of the Commission's Rules, two copies of this letter and the enclosures are being submitted to the Secretary's office on this date.

^{1/} See Letter of Whitney Hatch, Assistant Vice President, Regulatory Affairs, GTE Service Corporation, to William F. Caton, Acting Secretary, Federal Communications Commission, July 11, 1996, CC Docket 96-98. Attachment at 17.

^{2/} $0.35 \text{ cents} * (1.00 - 0.31) = 0.24 \text{ cents}$

^{3/} See Cox June 20 compilation at Tab 2. For instance, cost studies in Maryland and Florida have found transport and termination costs of approximately 0.2 cents. (While Maryland adopted higher rates, the order adopting those rates conceded the actual costs were far below the rates that were approved)

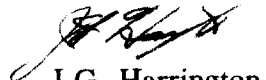
Mr. John Nakahata

July 19, 1996

Page 3

Please inform me if any questions should arise in connection with this letter.

Respectfully submitted,



J.G. Harrington

JGH/taf
Enclosures

cc (w/encl.): Regina Keeney, Esq.
Michele Farquhar, Esq.
Joseph Farrell
Karen Brinkmann, Esq.
Richard Metzger
James Schlichting
Gregory Rosston
Walter Strack

TESTIMONY

OF

PAULA L. BROWN

1 Q. Please state your name and business address.

2 A. My name is Paula L. Brown. My office is located at 125
3 High Street, Boston, Massachusetts. I am currently in the
4 position of Managing Director for NYNEX Corporation.

5 Q. Please describe your educational and professional
6 background.

7 A. I received my Bachelor of Arts degree in Political
8 Science from Vassar College, Poughkeepsie, New York, in 1970.
9 I was employed by New England Telephone ("NET" or "NYNEX") in
10 June of 1970 and was assigned to the Commercial Department.
11 I held various positions in that department until 1980 when I
12 was assigned to the Marketing Department. I was responsible
13 in that assignment for operations associated with sales
14 channels. In 1983, I transferred to the Revenue Matters
15 Department where I held various positions associated with
16 pricing access services. From 1984 through 1986, I was
17 assigned to the NYNEX Service Company where I worked on
18 federal access services issues. In 1987, I returned to New
19 England Telephone and assumed responsibility for the planning,
20 pricing and implementation activities for state access
21 services. In 1989, I was assigned as Director of Regulatory

WORKPAPER 3

CALCULATION OF AVERAGE NETWORK COST -- NYNEX LOCAL MINUTE OF USE

MASSACHUSETTS

<u>LINE</u>	<u>EXPENSE ITEM</u>	<u>SOURCE</u>	<u>RESULT</u>
1	Intraoffice Cost Per Peak Conv Minute	Workpaper 2	\$0.002580
2	Interoffice Cost Per Peak Conv Minute	Workpaper 2	\$0.006585
3	Cost Per Local Peak Conv Message	Workpaper 2	\$0.000007
4	Percent Intraoffice Usage	Actuals	61%
5	Percent Interoffice Usage	Actuals	39%
6	Average Length of Call Minutes per Message	June, 1992 Demand Data	3.16
7	Average cost per local peak conversation minute	$(L1 \times L4) +$ $(L2 \times L5) +$ $(L3 / L6)$	\$0.004144

WORKPAPER 4

COST DEVELOPMENT: TERMINATING MINUTES OF USE ASSOCIATED WITH
THE ORIGINATING MINUTES OF A COMPETING LOCAL EXCHANGE CARRIER

<u>LINE</u>	<u>INCREMENTAL COST ITEM</u>	<u>SOURCE</u>	<u>RESULT</u>
1	End Office Switching	MCS VI	\$0.001290
2	Line Haul	MCS VI	\$0.000088
3	Average Mileage - Carrier Access	MCS VI	20.06
4	Fiber Termination	MCS VI	\$0.001170
5	Other Termination	MCS VI	\$0.000554
6	Tandem Switching	MCS VI	\$0.000230
7	Access Billing	MCS VI	\$0.000215
<u>NON-COLLOCATED COSTS</u>			
8	Direct Routed Per Peak Conv Minute	$L1 + (L2 \times L3) + (2 \times L4) + L5 + L7$	\$0.006164
9	Tandem Routed Per Peak Conv Minute	$L1 + (L2 \times L3) + (4 \times L4) + L5 + L6 + L7$	\$0.008734
<u>COLLOCATED COSTS</u>			
10	Direct Routed Per Peak Conv Minute	$L1 + L5 + L7$	\$0.002059
11	Tandem Routed Per Peak Conv Minute	$L1 + (L2 \times L3) + (2 \times L4) + L5 + L6 + L7$	\$0.006394

Recalculation of NYNEX Termination Costs

*Based on data from testimony of Paula L Brown
Massachusetts DPU Docket No. 93-125*

Cost elements

End office switching	\$0.001290	(L1)
Line haul	\$0.000088	(L2)
Avg. interoffice mileage	\$6.330000	(L3)
Fiber termination	\$0.001170	(L4)
Other termination	\$0.000554	(L5)
Tandem switching	\$0.000230	(L6)
Local billing/msg	\$0.000007	

Intraoffice costs

Consist of end office switching	\$0.001290
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Interoffice costs

Omits double-counted items
from Brown testimony and
adds tandem switching.

$$L1+(L2*L3)+L4+L5+L6 \quad \$0.003801$$

Blended costs

Applies NYNEX formula to
costs calculated above

Intraoffice	\$0.001290
Interoffice	\$0.003801
Per message	\$0.000007
% intraoffice	61.00%
% interoffice	39.00%
Avg. call length	3.16
Avg. cost/minute	\$0.002272